Factor Markets

AP Microeconomics · Vocabulary in context

Word	Example
factor market /ˈfæktə ˈmɑːkɪt/	Workers sell their time in the **factor market**.
factors of production /ˈfæktəz ɒv prəˈdʌkʃn/	Land, workers and machines are **factors of production**.
labour /ˈleɪbə/	**Labour** is the work people do.
land /lænd/	Fields, forests and oil are all **land** in economics.
capital /ˈkæpɪtl/	Machines and buildings are **capital**.
circular-flow model /ˈsɜːkjʊlə fləʊ ˈmɒdl/	The **circular-flow model** shows money moving between households and firms.
households /ˈhaʊshəʊldz/	**Households** supply labour and receive wages.
wages /ˈweɪdʒɪz/	Workers may receive **wages** based on hours worked.
rent /rent/	**Rent** is the payment for using land.
derived demand /dɪˈraɪvd dɪˈmænd/	The demand for hotel cleaners is a **derived demand** from the demand for hotel rooms.
revenue /ˈrevənjuː/	Selling 30 loaves at $5 brings $150 of **revenue**. $5 30 $150
productivity /ˌprɒdəkˈtɪvɪti/	Better machines raise **productivity**: more output per hour.
substitute /ˈsʌbstɪtjuːt/	Tea is a **substitute** for coffee.

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employment	A rise in labour demand increases **employment**.
Marginal revenue product /ˈmɑːdʒɪnl ˈrevənjuː ˈprɒdʌkt/	The **marginal revenue product** of a worker is the extra money that worker brings in.
perfectly competitive /ˈpɜːfektlɪ kəmˈpetɪtɪv/	A **perfectly competitive** market has many small sellers of the same product.
wage taker /weɪdʒ ˈteɪkə/	A small bakery is a **wage taker**: it pays the market wage.
price taker /praɪs ˈteɪkə/	A farmer selling wheat is a **price taker**: he must accept the market price.
marginal product /ˈmɑːdʒɪnl ˈprɒdʌkt/	The **marginal product** of the eighth baker is the extra bread he makes.
marginal revenue /ˈmɑːdʒɪnl ˈrevənjuː/	**Marginal revenue** is the extra money from selling one more unit.
value of marginal product	The **value of marginal product** is marginal product times price.
Marginal factor cost /ˈmɑːdʒɪnl ˈfæktə kɒst/	The **marginal factor cost** is the extra cost of hiring one more worker.
variable input	Labour is a **variable input** because the firm can change it quickly.
fixed cost /fɪkst kɒst/	The shop's rent is a **fixed cost**: it stays the same however much it sells.

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Diminishing marginal returns /dɪˈmɪnɪʃɪŋ ˈmɑːdʒɪnl rɪˈtɜːnz/	**Diminishing marginal returns** set in when each extra worker adds less output.
least-cost combination /liːst kɒst ˌkɒmbɪˈneɪʃn/	The **least-cost combination** uses the cheapest mix of workers and machines.
cost minimization	**Cost minimization** means making a chosen output as cheaply as possible.
monopsony /məˈnɒpsəni/	A **monopsony** is a market with only one buyer.
wage bill /weɪdʒ bɪl/	The **wage bill** is the wage times the number of workers.
minimum wage /ˈmɪnɪməm weɪdʒ/	A **minimum wage** is the lowest pay allowed by law.

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